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**The Relationship of Globalization in the Development and Success of the  
Chilean Wine Industry**

Thesis Submitted to  
The Graduate College of  
Marshall University

In partial fulfillment of  
The requirements for the degree of  
Master of Arts in Geography

By  
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## **ABSTRACT**

### **“The Relationship of Globalization in the Development and Success of the Chilean Wine Industry”**

**By: Jeanette Kripas**

This thesis considers the economic geography of location, distribution and spatial organization of activities across the earth by focusing on the aspects of international trade and development. This will be accomplished by examining the process of globalization within the Chilean wine industry. This research explores several themes: 1) Globalization as a process, including the effects such as interdependence and global brands; 2) The role of globalization in the development of the wine industry; and 3) Whether or not the development of the wine industry accounts for generally positive attitudes toward globalization in Chile. Data analysis includes an examination of how the globalization of the Chilean wine industry may be connected to changes in increase in total hectares planted, overall production and export volume. Analysis of these statistics is augmented by interviews with executives from five top vineyards in Chile. This thesis seeks to show the effects of globalization on the Chilean wine industry by examining the effect of increased exports and production, as well as analyzing personal interviews. This thesis also looks at the overall attitudes towards globalization from the Chilean wine industry. Overall the Chilean wine industry has a positive outlook on globalization.

**Keywords: Globalization, Chile, Wine Industry, Vineyards, Spirits, International Trade**

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## **Chapter One**

### **Introduction**

The Chilean wine industry has become an important export industry. Its exports have increased \$6.5 billion alone in the past thirteen years. In 1992 the industry produced 7.4 million liters making \$1.2 billion in profit. In 2005, the industry produced 4.17 billion liters, making \$8.7 billion (Asociacion de Vinas de Chile 2005). With this continual growth Chilean wine has grown in prestige with many wines winning top awards at international competitions in France such as the Don Recla Cabernet Sauvignon 2005 Trophée Prestige (Bronze Medal), Les Citadelles du Vin 2006, and Merlot-Sauvignon Vinalies d' Or (Gold Medal) in Vinalies 2005. Along with these awards in France, Chilean wines earned thirteen gold medals at London's 24<sup>th</sup> annual International Wine Challenge (Asociacion de Vinas de Chile 2005).

The growth in the wine industry has led to the emergence of trade associations dedicated to assisting companies as they work together to promote their brands international appeal. "In the past year, Chile has gained acclaim for our Bordeaux style blends and Sauvignon Blancs from some of the country's top wine critics. These import numbers show that the consumer is responding favorably as well," said Ricardo Letelier, managing director of Wines of Chile (Wines of Chile 2006). The Chilean wine industry has been trying to gain a stronger global reputation and therefore needed associations and groups to promote the best interests of the industry. Reflecting increased wine production since 1950, there have been 55 groups/associations established to promote the Chilean wine industry.

Reflecting this tremendous global growth, the wine industry has become increasingly important to the Chilean economy. This study examines how the process of globalization has

affected the Chilean wine industry. This thesis begins by discussing the process of globalization, interdependence and global brands. These processes are important when examining the wine industry because globalization tends to lead towards interdependence and the emergence of global brands. These processes will give insight to what the wine industry may currently be experiencing. After this review, a brief history of the Chilean wine industry since the colonial era will be introduced for some background information.

The next chapter provides an overview of the current wine industry by analyzing indicators that lead to globalization, as well as interviews conducted at top vineyards in Chile. This thesis seeks to demonstrate the role that globalization has had in Chile, while using the wine industry to examine that role. This research will focus on the Chilean wine industry and will show how quickly the wine industry has grown in the last twenty years. This research will also determine whether or not the growth in the Chilean wine industry can be attributed to a process of globalization and if that process reflects a positive outlook towards globalization. As a whole, Chile tends to look positively on globalization and open market policies compared to the rest of the South American region.



## **Chapter Two**

### **Literature Review**

This section will review current scholarly interpretations of globalization to better understand its importance and its influence on the Chilean wine industry. Globalization is not new to the world wine markets, but its influence on them over the past decade or so has increased significantly (Anderson, Wittwer, and Norman 2003). Globalization often reflects the perception that the world is rapidly being formed into a shared space by economic and technological forces. As a result, developments in one region of the world can have profound consequences for the lives of individuals, communities, or businesses on the other side of the world. The creation of economic interdependence and the emergence of global brands in the global market are two trends closely identified with globalization. The review of the literature concerning globalization will cover three themes: (1) globalization, (2) interdependence, and (3) global brands.

#### **Globalization**

According to Stutz and Warf globalization can be generally defined as “worldwide processes that make the world, its economic system, and its society more uniform, more integrated and more interdependent” (Stutz and Warf 2005, 13). The process of globalization has been around since the seventeenth century and some scholars even argue as early as the sixteenth century. Some claim that European Imperialism during this time fueled the start of globalization. Dominant European advancement into the New World may have been the most profound influence of globalization by helping to start an entire system of world politics and economics. As a result, the Dutch and other Europeans developed global corporate trade enterprises, such as the

Dutch East Indies Company. These companies opened the door for increased international trade (Modelski 2003). European imperialism helped to form long distance trade networks with the creation and expansion of multinational businesses. Multinational businesses such as these paved the way for the existence and spread of globalization starting on a small scale and increasing level of activity within the global economy today (Modelski 2003).

Although this process of increasing interaction with different parts of the world was underway for some time, it was not termed globalization until the 1960s and early 1970s. Globalization is identified in most recent literature with the increasingly common homogeneous global culture, economy and political organization. An increasingly global culture is emerging from “global encounters and interactions inventing new cultural forms and repertoires” (Robins 2007, 240). An example of this is music culture. The variety in the availability of world music includes Hindi, Latino, Pakistani, Welsh-speaking reggae, and US west coast rap music and style. (Robins 2003)

Economic globalization is also an increasingly important aspect of globalization.

“The new geography of the world economy, produced by the growing integration of economic activity across national borders, constitutes the emergence of a single planetary scale worldwide economy” (Dicken 2003, 299).

Examples of this global economy include twenty-four-hour-a-day trading across world financial centers, bi-lateral, multi-lateral trade agreements, regional unions, and migration of labor. Increased activity in trade has become one of the main components of economic globalization. “In the last two decades of the twentieth century, international trade grew faster than production” (Castells 2003, 311). Without the increase in worldwide trading, twenty four-hour-a-day activity within world financial centers, bi-lateral, multilateral trade agreements, regional unions and the migration of labor would not be as significant. Without the high demand for workers needed

around the world, because of the increase in worldwide trading, the migration of labor may not play a role in globalization (Castells 2003).

Global politics is a third aspect of globalization. Global governance and political institutions help create a framework and regulations for international interaction around the world. A well-known example of political globalization is the United Nations.

“If particular regional or global problems escape the immediate capacities of states, it is only by collaborating together, that is, through various forms of inter-governmentalism that such issues and problems can actually and legitimately be solved.” (Halliday 2003, 494)

According to Halliday, a benefit of globalization is that nation states can work together to solve national and global issues. That is why the United Nations is so important to global governance (Halliday 2003).

There are many issues that globalization can encompass, therefore, globalization can be hard to decipher due to the fact that actual positions on globalization between groups have no fixed lines of debate. Instead, globalists believe that multiple conversations coexist that do not employ a set of classifications on the globalization theory. The research suggests that there are two views of globalization: globalists and skeptics also referred as anti-globalists.

### **Globalist Perspectives**

Globalists see globalization as an irreversible process that has been ongoing for hundreds of years, possibly since the sixteenth and seventeenth centuries. According to Banda's research, “globalists understand globalization as an inevitable development that cannot be resisted of significantly influenced by human intervention, particularly through traditional political institutions such as nation states” (Banda 2006,459). Some globalist theorists break globalization down into two perspectives. According to one researcher, there are two theoretical perspectives

when looking at the evolution of globalization: international relations and the world system theory. The international relations perspective focuses on the rise of nation states. While this is an important aspect in the emergence of globalization, there are many more dimensions taking place. Within the world system order there are four dimensions of globalization: world capitalist economy, nation-state system, international, world military order, and division of labor (Giddens 2003).

The world capitalist system is listed as the first dimension because “the main centers of power in the world economy are capitalist states” (Giddens 2003, 62). In Giddens’s research capitalist states refers to a variety of players that foster globalization including, global banking centers, currency markets, national governments, multinational corporations, and transnational corporations (Giddens 2003). In this research Multinational corporations and transnational corporations are considered the primary centers of capitalism. Multinational corporations (MNCs) and transnational corporations (TNCs) are believed to be the main driving forces of global capitalism or the world capitalist system because they derive support from Foreign Direct Investment (FDI) (Guttal 2007). The difference between MNCs and TNCs is that MNCs are based in one country but do their business in one or more other country, while TNCs operate their factories or service centers in countries other than their country of origin (Stutz and Warf 2005). Foreign Direct Investment (FDI) is considered an investment made to acquire lasting interest in enterprises operating outside the economy of the investor. FDI typically comes from national governments and invests to create MNCs. Foreign Direct Investment allows MNCs and TNCs to facilitate international production networks to increase trade worldwide. “MNCs and TNCs account for two-thirds of total world trade and continue to dominate due to the support of FDI and foreign subsidiaries” (Castells 2003, 317).

The nation-state system is listed as dimension two and is an important aspect because of sovereignty and the recognition of borders by all states. The nation state system is also an important aspect of international business, because international trade has been historically the main link between national economies (Giddens 2003). As we move into the twenty-first century, changes appear primarily in the form of the greatly increased speed and absolute magnitude of economic flows across national borders and the inclusion of more and more countries in the global economy.

Even though international trade is continuously growing, the nation state system still plays a major role in the global economy. Individual nations can affect corporation trading within their territorial borders, for example, by setting different tax standards for importing and exporting within that specific country. Another example is labor migration policies. According to Gilpin nation states play a big role in labor migration. In his research he states, “barriers to labor migration are typically built by policies intended to protect the real wages and social welfare of the nation’s citizens, and the modern welfare state is based on the assumption that its benefits will be available only to its own citizens ” (Gilpin 2003, 351). While some nations create barriers to labor migration others have opened borders to accept except large numbers of immigrants, for example the United States. The nation state system has had an immense affect on the flow of labor migration within the global economy (Gilpin 2003).

The third dimension is world military order. This dimension gives rise to the idea of the spread of technological information on weapons between nations.

“Contemporary military globalization in most key respects reflects more extensive patterns and systems of military/security interconnectedness than at any time since the late nineteenth century.” (Held, McGrew, Goldblatt and Perraton 1999, 134)

This research emphasizes today the world military order as a cooperative security and collective defense approach. It also takes into consideration the existence of alliances and treaties. An example of current world military order is NATO. With its many subsidiary organs, committees, and other multilateral defense related assemblies, combined with the proliferation of trans-governmental or transnational bureaucratic, military, defense-industrial and expert networks, NATO has contributed to the stretching of the defense policy process and the task of defense management across national boundaries (Held, McGrew, Goldblatt and Perraton 1999).

The fourth dimension is the global division of labor (GDL). This dimension focuses on the differences in industrialization between developed and developing nations. These differences look at such things as regional economic specialization based on specific jobs, tasks, and skill (Giddens 2003). The GDL focuses on the interpenetration of global processes, regional dynamics and local conditions. One element in the reordering of this hierarchical system is massive transfers of population from the Third World, Eastern Europe, and the former Soviet Union to the advanced capitalist countries. “The United Nations Population Fund estimates that there are at least 100 million international migrants living outside the countries in which they were born” (Mittelman 1995, 11). Competition and fear of extinction drove firms and enterprises to expand and produce on a scale larger than a national market. According to the GDL approach, the population of workers followed these companies to ensure job stability (Mittelman 1995).

These dimensions help produce some of globalization’s most dramatic effects, namely, “the increase of speed and flow of capital in money form, the expansion of offshore financial markets, the transition to computerized technology, and the renewed moves towards regionalism” (Marshall 1995, 875). These trends are intimately connected to advances in communication technologies. These new technologies have accelerated the global flow of capital

and given international businesses the opportunity to do business on a twenty-four hour basis. Information and communication technologies make it possible for nations and global companies to sustain deeper levels of economic integration with one another (Kearney 2003).

These dramatic changes attributed to globalization draw a great deal of criticism but are actually due to other factors. The first criticism is that globalization means the triumph of giant companies. Globalists however, contend that the proportion of output from big companies has declined, not increased. “Globalization lowers barriers, makes capital easier to raise, technology easier to buy, markets easier to reach and ties with national governments ever less important” (Micklethwait and Wooldridge 2003, 503). Companies no longer have to be multinational corporations to have a global reach. Companies no longer need to be multinational corporations to be involved in international trade and production.

A second criticism is that globalization is destroying the environment but Globalists argue that environmental degradation stems from local governments, local companies and local voters. By blaming globalization for the destruction of the environment, people are letting local politicians off the hook. It is true in many cases that increasing business activity generally harms the environment in the short term.

“However, as countries grow richer, they tend to clean up their act. An elaborate index of environmental sustainability in 122 countries prepared for the World Economic Forum in 2003 showed a strong correlation between a country’s greenness and wealth” (Micklethwait and Wooldridge 2003, 504).

In many cases globalization directly benefits the environment by promoting trade in pollution control technology and the privatization of state owned companies, which generally become less polluting as they are restructured. Globalization has also promoted awareness of global environmental issues, such as the UN-sponsored Framework Convention on Climate Change

(UNFCCC). This convention adopted the Kyoto Protocol which was the first agreement made to tackle green house gas emission levels. Globalization has helped countries come together to face environmental issues around the world.

A third main criticism is that globalization is causing increasing inequalities around the world. Yet, Dollar and Kraay argued, “The current wave of globalization which started in around 1980, has promoted economic equality and reduced poverty” (Dollar and Kraay 2003, 445). In this study Dollar and Kraay show that inequality has gone up in some countries but down in others, but that those changes are not systematically linked to globalization measures such as “trade, investment flows, tariff rates, and the presence of capital controls.” (Dollar and Kraay 2003, 448) These shifts in inequality stem more from domestic education, taxes and social policies. In general this study shows that high growth rates in globalizing developed countries have translated into higher incomes for the poor. For example China has experienced the largest reduction of poverty in recent history, which is believed to be possible because they opened their economy to foreign trade and investment. “The number of extreme poor in China declined from 250 million in 1978 to 34 million in 1999” (Wade and Wolf 2003, 446). China has made tremendous progress in reducing the number of people living in extreme poverty over the last twenty years.

These dimensions, effects, and benefits give an overall understanding to the globalist perspective that globalization is in fact helping nations to grow into the global economy. Despite this, there are still skeptics/anti - globalists who believe that globalization is harming the world.

### **Anti-globalists Perspectives**

Anti-globalists believe there are many factors within the process of globalization that could be potentially harmful to the world and especially developing countries. One of the biggest



complaints is that many governments around the world see globalization as a short cut to development. According to Rodrik, “governments in poor nations divert human resources, administrative capabilities, and political capital away from more urgent development priorities such as education, public health, industrial capacity and social cohesion” (Rodrik 2003, 496). Anti-globalists want to emphasize that globalization policies alone are not enough. Globalization policies are different from government to government. Typically globalization policies only include policies to enter the global market. These policies would include opening trade by signing trade agreements. Anti-globalists believe that governments need to include trade liberalization policies that the World Bank, International Monetary Fund, and World Trade Organization require for countries to become integrated into the world market. The policies required by these organizations are aimed at increasing connections with external economies as well as implementing social reforms in developing countries. Developing countries need to keep these requirements in mind because globalization by itself is not an implementation policy; it is more like a set of guidelines to see what needs to be eventually accomplished, to be integrated into the global economy (Rodrik 2003).

Anti-globalists emphasize that the implementation of globalization policies in the name of liberalization policies leads to numerous problems within the world today. Despite what some globalists believe, anti-globalists are not against neo-liberal or liberal policies. They are against governments enacting strategies of what they consider globalization policies without neo-liberal policies that will also include social reforms. Some of these problems include, greater income inequality, destruction of the environment, making geography irrelevant, globalization means Americanization, lower standards in labor, the zero sum-game, and the concentration of power

into undemocratic institutions such as the World Trade Organization (Micklethwait and Wooldridge 2003).

The first criticism is a very heated debate among globalists and anti-globalists over the statement that globalization creates income inequality, which has also been said to include social inequalities. The globalists suggest that “The level of income disparity in an economy may have more to do with history of economic growth, price and wage controls, welfare programs, and education policies than it does with globalization or trade liberalization” (Kearney 2003, 332). Anti-globalists assert that inequalities come from national governments enforcing a globalization process as a cure all, rather than focusing on other social issues before trying to open the economy to the global market. They believe that governments should try to mend social issues before becoming an open economy because globalization will not fix social issues (Kearney 2003). Two countries that are an example of this push for globalization but have not focused on social reform are Nigeria and Angola.

“Nigeria’s reported GNI per capita jumped from \$260 in 2000 to \$500 in 2005 and Angola’s from \$240 to \$1,350 in the same time period. This is not considered progress however if it was spent to prop up oppressive and corrupt rulers: on military equipment and on perks and payments to officers to ensure their loyalty” (Pogge 2008, 68).

According to Pogge, growth of a nation should not be measured solely on GNI per capita. Other factors contribute to growth and decline within a nation. Pogge looks at the GNI per capita of a country, as well as the top and bottom deciles of the population to get a fair depiction of income inequality. For example, if a country such as Bolivia was studied based solely on GNI, it would ignore the poorest decile, which makes up 10 percent of the population. But if this case had studied in terms of economic position it would show that improvements in the position of the poor are possible at a tiny opportunity cost to the rich. “The richest decile in Bolivia lives on

\$13,000 PPP per capita as compared to \$77 in its poorest decile” (Pogge 2008, 69). Just a shift of \$200 would raise that bottom decil from 2.8 percent to 10 percent of the average income (Pogge 2008). According to anti-globalists inequalities are increasing because globalization causes increasing gaps between rich and poor. In these examples provided by Pogge, Nigeria, Angola, and Bolivia show increasing inequalities among developing nations that are currently trying to get into the global market (Pogge 2008).

The second criticism, destruction of the environment, results from increased trade and business activity. This business activity is believed to be harmful because companies will go to environmentally unsustainable production levels to meet the global demand. These production levels can cause damaging pollutants to enter the atmosphere and oceans.

“Fishing fleets continue to ravage the oceans because governments spend \$21 billion a year supporting them. Brazil’s government initially spurred on the despoliation of the rainforest. The World-watch Institute estimates that there are \$650 billion worth of subsidies going to environmentally destructive activities.” (Micklethwait and Wooldridge 2003, 505)

According to Micklethwait and Wooldridge, this is just a short list of examples. Anti-globalists believe these examples prove that globalization is contributing to environmental destruction. Anti-globalists views are supported by governments providing support to companies, such as Brazil’s destruction of their rainforest to create more land for corporations.

International companies and governments do not realize that the implementations of environmental regulations are not terribly expensive. Companies do not realize this because many reports state “many costly hold-ups lead to developers of larger steel and power projects to adopt more proactive approaches, such as incorporating beyond-compliance technologies into their plants from the outset” (Perkins 2007, 292). These reports lead companies to believe that it is too expensive to implement environmental regulations on business centers already established

and producing (Perkins 2007). Despite these reports, “even the most polluting industries don’t have to spend more than 2 percent of their revenues on being good environmental citizens” (Micklethwait and Wooldridge 2003, 504). If companies and governments would realize that the cost to be environmentally friendly is not as expensive as they believe, the world could be a greener place. Contribution to the destruction of the environment is happening everyday by international companies, and national governments around the world (Micklethwait and Wooldridge 2003).

The third criticism, globalization makes geography irrelevant, is based on the increasing amount of regional agreements. By making geography irrelevant, nation states are less important. Anti-globalists see regional agreements as erasing national borders and changing local issues into national or even international issues. Alongside financial integration, the operations of multinational corporations integrate national and local economies into global and production networks.

“Under these conditions, national economies no longer function as autonomous systems of wealth creation since national borders are increasingly marginal to the conduct and organization of economic activity” (Pease 2000, 34).

The growth of international corporations makes it increasingly more difficult to tell the difference between domestic economic activity and international. Anti-globalists believe that this level of trading takes power away from national economies and voters to put more power in the hands of international corporations. Examples of corporations that exhibit global economic activity on their own include Wal-Mart, Toyota, Nike, Dole, Exxon, and Starbucks (Pease 2000).

The fourth idea, globalization means Americanization, is because globalization usually tilts in favor of liberal ideals, such as accountability, transparency, and individual rights. These

ideas are often viewed as American because of the “monopoly” America has on liberal ideas promoting democracy across nations (Micklethwait and Wooldridge 2003, 506). The ideals themselves are not seen as negative it is the idea that the Americanization is spreading more than just liberal ideals. The United States not only promotes liberal policies around the world, but an increasing American culture is spreading. American films can be seen almost all over the world. The BigMac is the closest thing there is to a universal food. There is even a McDonalds in Serbia. American actors and music artists can be seen in almost all of the world’s tabloids, “even Brittany Spears is hard to avoid” (Rodrik 2003, 500).

The fifth topic of criticism, lower labor standards, is perceived that employers are concerned with the price of labor. Companies are seen as weakening ties with their home regions and that they do not look favorably on worker protection programs. Many global companies are seen as hostile towards local worker protection such as trade-union rights and labor standards. “The principle economic objective of multinational corporations is to produce goods and services for world markets at the least possible costs” (Pease 2000, 32). A rebuttal to this argument is that “If the race to the bottom argument were correct you would expect Foreign Direct Investment (FDI) to be pouring into the countries with the lowest wages and the weakest labor standards” (Micklethwait and Wooldridge 2003, 507). According to Micklethwait and Wooldridge, the idea that FDI is going to countries with low wages and weak labor standards could not be farther from the truth. The United States is the world’s top recipient of FDI per year. This inflow of capital has helped the U.S. “keep interest rates low, build new factories, and bring in new production methods” (Micklethwait and Wooldridge 2003, 507).

Even though the United States is the number one recipient of FDI in the world there are still some cases of FDI going into countries with lower wages and weaker labor standards. A

study done on Romania's acceptance into the European Union by Martin and Straubhaar and the Cooperative Efforts to Manage Emigration (CEME) within the EU, encouraged creating economic conditions that attracted Foreign Direct Investment. Romania is currently being encouraged to attract FDI to "bring growth and job creation, which in turn will reduce emigration pressures and speed the acceptance of Romania into the EU" (Martin and Straubhaar 2002, 71). Two cities in Romania, Timisoara and Bucharest are currently bringing in \$1 billion a year in FDI. Firms are taking advantage of the "somewhat skilled labor force" and low wages (Martin and Straubhaar 2002, 75). Romania is allowing foreign investors to import equipment free of tax and to send back profits free of their tax. Many of the jobs being created are in manufacturing. A somewhat skilled labor force, low wages, and tax incentives essentially attract FDI. In the end Romania and the EU are hoping that this process will increase growth, and create new jobs to keep the population from wanting to migrate elsewhere in Europe (Martin and Straubhaar 2002).

The sixth criticism ties in with the lower labor standards by suggesting that the global economy functions as a zero-sum game where these international companies help the rich become richer and the poor become poorer. An example of a zero-sum-game situation exists within China. Certain segments of Chinese society have benefited a great deal from recent reforms, while others have seen little or no gain at all. "China has turned itself from a relatively egalitarian society into one with huge and growing inequalities" (Wang 2000, 373). In the 1990s these increasing inequalities caused farmers and workers to become more frustrated as their political and social status declined. The argument against the zero-sum game is that globalists believe that globalization improves living standards over time. "An estimate done by the World Bank states that 800 million people moved out of absolute poverty in the past decade due to implementation of globalization and liberal economic policies" (Micklethwait and Wooldridge

2003, 508). Despite the estimates done by the World Bank anti-globalists still believe there is a zero sum game within new globalizing developing nations (Wang 2000).

The final criticism discussed by anti-globalists is that globalization concentrates power in undemocratic institutions such as the World Trade Organization (WTO). Organizations such as the WTO and the International Monetary Fund (IMF) can impose stringent requirements for structural reforms for developing nations that wish to enter the global economy. South Korea is one example of a country the WTO made go through strict structural reforms. After the Asian currency crisis the WTO's main objective in Korea was to help build a "free and open market economy based on market principles, including fair competition and more liberal global trade, to promote international competitiveness and economic growth" (World Trade Organization 2000, 6). The WTO enforced structural reforms that opened the economy to foreign markets attracting Foreign Direct Investment and making Korea an export-dependant country.

Some of the structural reforms the WTO instilled in Korea are "Agreement on Agriculture, Agreement on Implementation of GATT, Agreement on Tariffs and Trade, Agreement on Trade Services, Agreement on Import Licensing, and on Government Procurement" (World Trade Organization 2000, 9).

These agreements had Korea reform by having a National Economic Advisory Council that advised the President on development policies including domestic and international economic issues affecting national welfare (World Trade Organization 2000). Korea had to reform in many different ways for the WTO to help them after the Asian Currency Crisis.

Korea in the eyes of some anti- globalists is an exception to being able to reform with the WTO. It can be difficult for developing nations to meet these very strict requirements, but globalists believe that national governments are still seen as far more important in the international marketplace. For example, "it was the U.S. Treasury Department who decided to

bail out countries during the Asian currency crisis” (Micklethwait and Wooldridge 2003, 508). Globalists agree that by the United State bailing out countries from economic and currency crises those countries can avoid the requirements of the IMF, WTO and the World Bank.

## **Interdependence**

There is a lot of debate between globalists and anti-globalists, but the one thing that seems to be a common agreement is the existence of interdependency. Interdependency has become an effect of globalization connecting the world on multiple channels by creating “global villages”. Most literature refers to this concept as global or complex interdependence, which can be “described as multiple channels between societies, with multiple actors, not just states; multiple issues, not arranged in any clear hierarchy; and the irrelevance of the threat or use of force among states linked by this concept” (Keohane and Nye 2003, 232). The general view of interdependence is that the world is becoming inextricably connected and reliant on each other to function.

Military interdependence is the first type of interdependence that was seen as a dominant force of connectivity. Military interdependence was the first sign in interdependence that played a big role in the world economy and politics. Nations have always relied on each other for military support, such as the coalition of allied nations that fought during World War I and II. Other types of military interdependence include support for United Nations peacekeeping missions and special interest cases dominated by military power. An example of a special interest case is when the U.S. declared a national security policy during the Cold War. The national security policy had an enormous effect not just the United States, but the world (Keohane and Nye 1999). Special interest cases such as this one can affect global business and the cooperation between nations. For example, the national security policy put forth by the



United States increased foreign economic competition. This competition created tension between the U.S. and other countries that invested or did business within the countries where national security was invoked (Keohane and Nye 2003). Policies that affect global communications between nations also affect global business such as wine industries.

Interdependency has more characteristics than just world military involvement. Other themes involved in this complex interdependency include environmental, social, cultural, and economic factors. Environmental interdependence is a result of the depletion of the stratospheric ozone layer, pollution in the oceans, endangered animals, as is the spread of diseases around the world such as AIDS. These environmental issues help to create complex interdependence to seek solutions (Keohane and Nye 2003). Environmental issues are becoming international rather than just domestic concerns. These environmental efforts are starting to play a collaborative effort in the international scene. Examples of this interdependence are the global environmental conferences, such as the one that created the Kyoto Protocol. This protocol was one of the first intergovernmental treaties to reduce the emission of green house gases by developed countries. “The most recent collaborative effort involved the United Nations proposing a Global Environment Authority that would have legal authority for future environmental decisions” (Mathews 2003, 211).

Social and cultural interdependence form the next types of interdependence. They are grouped together because social aspects help shape and form cultures. Globalization helps to create what literature refers to as global culture. This global culture is created from the vast amount of information available to people all over the world. This information comes from information technology including media, internet, and communication capabilities (telephone and email). With these forms of communication, people all over the world can keep in touch with

top news stories, fashion, movies, and music. These trends are an important aspect of this form of social globalism and interdependence “involves the imitation of one society’s practices and institutions by others” (Keohane and Nye 2003, 237).

This imitation of one society is characterized as the Western society, because people all over the world pay attention to Western TV, music, and news. Western society, as stated here, refers to the developed countries of the world including Western Europe, the United States, and Canada. The concentration on Western culture is because of the focus that the mass media has. When people speak about the westernization of the global society, they are referring to a whole range of things within a consumer culture. Examples include McDonalds, Coca Cola, Levi Jeans, the spread of European languages (particularly English), styles of dress, eating habits architecture, music, and a pattern of cultural experience dominated by the mass media (Keohane and Nye 2003).

Even though the social and cultural form of interdependence focuses on Western culture, there are many other characteristics that help create the global culture. Some of these characteristics include human aspirations, attachments and demands. A general set of components shared by a global culture are: “1) sense of continuity between the experiences of succeeding generations of the unit of population, 2) shared memories of specific events and personages which have been turning points of a collective history, and 3) sense of a common destiny and/or aspirations on the part of collectivity sharing those experiences” (Smith 2003, 280).

The global culture would operate at several levels simultaneously and those would also add to the final characteristic of complex interdependence based on the global economy. Economic interdependence is the most commonly studied form of interdependence, because it is

easier to study and analyze quantitatively. Studies on economic interdependence show that the global economy lowers barriers, making capital easier to raise, technology easier to buy, markets easier to reach, and ties with national governments ever less important (Micklewait and Wooldridge 2003). Making capital easier to raise also makes capital easier to flow between nations. Capital is an important aspect of economic interdependence because the global economy is dependent on certain currencies to do business on a daily basis.

However, technology is what really facilitates the growth of economic interdependence. With the latest developments in technology, communication across nations becomes easier and international trade becomes the dominant form of business. Profound innovations in technological advancement came in the nineteenth century with the telegraph and the steam engine. From there technology and communication advanced to what is available today. Examples of modern telecommunications include the use of computers, the Internet (for email, online banking, buying, selling, currency exchange, trade), telephones, cell phones, and fax machines. With these forms of technology and communication, international commerce became easier to conduct on a twenty-four-hour-a-day basis (Jones 1999).

With technology aiding economic interdependency, it is also fueled by regional and international integration into the global economy. Such integration can be in the form of trade agreements or unions. Regional unions and free trade areas are important because they strengthen and consolidate interaction between each nation involved. An example of regional integration within economic interdependence is the European Union. Every nation within the Union is dependent upon each other and the Union. They are linked through currency, trade, labor, and laws. “Although national governments dominate the decision-making process in Europe, they do so within an institutional context involving the pooling and sharing of

sovereignty, and in conjunction with a commission that has a degree of interdependence” (Keohane 2003, 154). This decision-making process links the European Union with several types of interdependence, but economic remains the most dominant. Other regional examples are NAFTA, MERCOSUR (Southern Common Market in South America), and ASEAN (The Association of Southeast Asian Nations). Regional integration is becoming a big part of economic interdependence (Keohane 2003).

Complex interdependency is a compilation of military, environmental, social, cultural and economic interdependence. Military was the first form of interdependence recognized. The most important and most visible type of interdependency in the world today is economic. Economic interdependency is important because nations are relying on the global economy for trade, currency banking, technology and communication. The creation of trade agreements and regional unions expands the links between nations and furthers economic interdependency. The increase in economic interdependency between nations also affects the trading among corporations. Interdependency and globalization leads corporations to try to expand and thrive in the global market by creating global brands.

### **Global Brands**

Globalization is causing individual companies to expand and put more emphasis on building a corporate brand or reputation that can distinguish their products in the global market. “Companies know that consumers will pay much higher prices for reputable products from a well-known producer or region because they do not have sufficient information or they are uncertain about particular quality same” (Schamel 2006, 364). To build a global brand, companies must develop a certain reputation with labels, design, and overall appearance. This

will have a huge impact on whether or not consumers will recognize a specific product (Schamel 2006).

Companies often need a strategy to produce a global brand. The Executive Director of the Center on Global Brand Leadership at Columbia Business School came up with a strategy for companies who want to build a global brand. This strategy has three steps 1) You need to use communication to build the brand, 2) You need to use human aspirational appeals, and 3) You need to use the global media. Step one entails developing an effective advertising strategy to communicate what the product is. Step two is about appealing to consumer aspirations to produce and market the product. Step three is effectively getting global media coverage on your product. These three steps may seem simple but they involve many minute details that have to be effectively monitored on a daily basis (Schmit 2008). Two brands that branched out to become global brands are the Discovery Channel and champagne.

An example of a global brand that has reached an indestructible image and adapted to cultures around the world is the Discovery Channel. The Discovery Channel sought global recognition by its “perceived authority in educational and non-fictional documentary programming.” With a global Discovery brand, Discovery Communications expanded the audience for its cable satellite networks into over 231 million homes in 155 countries. To accomplish this, Discovery had to take into consideration the variety of cultures that would now be its viewing audience (Pierson 2005, 700). With that in mind, Discovery did a study on nature and gender, nature and social structure, and social perceptions of nature to evaluate animals through human moral values. This study helped the Discovery Channel produce programs that are highly dramatic and filled with “close-knit families, external conflicts, and intense

competition, which is very similar in the lives of their middle class suburban viewers” (Pierson 2005, 710).

This example of the Discovery Channel shows the time and resources that companies must put into their product to create a global brand. To become a global brand, Discovery used the findings from their study on social perceptions of nature to market to the different cultures throughout the world. They found what consumers wanted and they created a marketing strategy to entice more consumers globally. “Discovery explicitly and tacitly developed a recognizable identity across the range of programming that entices a range of cultures” (Pierson 2005, 698). Companies must study who their consumers are. Discovery’s audience is a high concentration of middle class suburban whereas another company may be focused on teenagers from age 15-19. By studying their consumer or target consumer, companies can develop an effect market strategy (Pierson 2005).

Another example of a global brand is Champagne from the Champagne region in France. In France, and the rest of the European Union, it is illegal to sell any wine labeled as Champagne unless it comes from the region Northeast of Paris that has been producing Champagne since the seventeenth century. Even though the U.S. and most other countries do not have this law, non-European winemakers often respect the Old World producers, and market their products as champenoise or sparkling wine. The French Government has placed regulations on champagne production. These regulations dictate that champagne grapes can only be grown and cultivated in the champagne region, the aging process, fermentation process, and that the word champagne must appear on the label and the cork (Jacobs 2006). These regulations help to ensure consistency throughout the production process leading to a more uniformly recognizable champagne product for global customers.

The champagne global brand is based on geographic indicators to show quality assurance and consumer protection. The champagne region in France gives this product the edge it needed to become a global brand. France began vine cultivation in the south in 600 B.C. and was spread through the country by the first and second centuries B.C. (Anderson, Norman, and Wittwer 2003). Based in part on its long history in wine production France has developed a reputation within the wine industry and among consumers. That reputation helped the establishment of champagne as a global brand.

Global brands have influenced the future market for consumers and companies worldwide. “The introduction of global brands created awareness that non-material assets are as important as material ones and that national trademarks should be created” (Borisov 2005, 129). Many global brands have been produced such as: Coca-Cola, Levi’s, Pepsi, Mac (Apple), Starbucks, and McDonalds. Most consumers are not even aware of the global importance of these products (Borisov 2005).

This review has included a lengthy discussion on globalization. The first section included the dimensions of globalization and the visible effects with a review of globalists and anti-globalists perspectives. Interdependence was introduced as an effect of increasing globalization. The types of interdependence discussed were military, environmental, social, cultural, and economic. From there, the emergence of global brands in the global market was discussed. This review of globalization and its effects including the creation of interdependence and the emergence of global brands are important to help determine their presence within Chile and the Chilean wine industry.

## **Chapter Three**

### **A History of Wine in Chile**

Grape cultivation and wine production became an important aspect in Chile during the colonial era. The Spanish conquistadors introduced an array of new foods, meats, and wine into the culture of the Chilean population. At first, wine consumption was met with the importation of French and Spanish wines. This focus on importing European wines changed due to the high cost and poor quality of transporting wine. At that time, there was little technology to preserve the quality of wine shipped overseas. As a result, there was clear incentive to meet domestic demands by local production instead of importation. The first grape variety grown in Chile was the Pais grape, which at that time was called the mission grape. This variety was grown mostly by small colonial producers and by Catholic missionaries, hence the name mission grape (Keen 1996).

During the colonial era, land ownership in Chile was dominated by the hacienda system. This system is characterized by a small number of great estates in Chile called latifundias holding 80 percent of the agricultural land. These latifundias were very similar to the feudal system in Europe, except that the peasants in the European system had no legal or customary attachment or property claims to the land. This system was a social system of agricultural production and a source of political power supported by the mutually dependent economies of landlords and peasants. With these latifundias in place, elite landowners and Catholic missionaries produced wine (Keen 1996). These latifundias meant that grapes to produce wine were not grown by the common population or peasants. Wine in the colonial time was typically produced by the elite or missionaries. This limited production of wine was due to the fact that the common population did not have their own land to produce what they wanted. If the common



population did have land, it was used to feed their families not to produce wine (Benavente 1996).

After Chile gained its independence in 1818, the newly emerged Republic of Chile opened itself to international trade and a variety of other cultures. “Chile’s aristocratic and mercantile elite, went to Europe on the Grand Tour and brought back contemporary fashions and tastes. Among these tastes was an enjoyment of high quality wines such as Bordeaux. The importation of these newly acquired high quality European wines proved to be very costly” (Ross 2006, 5). With that in mind Chileans began to consider producing wine on the assumption that they could produce a quality as good as the imports they had grown to enjoy (Ross 2006).

Since the elite population had made connections within Europe, it is no surprise they became the most well known wine producers in Chile. A landowner by the name of Don Silestre Ochagavia used his connections to learn European winemaking methods and varieties of which he then introduced into a Chilean winemaking culture. The information that Ochagavia brought back was important for the transformation of Chilean wines into quality wines that we know now by the names of Sauvignon Blanc, Merlot, Malbec (a Chilean and Argentinean varietal), and Cabernet Sauvignon. Ochagavia accomplished this by bringing back cuttings of these top quality wines and hiring a French winemaker (Ross 2006, 6). Until Ochagavia brought back information on wine production from Europe, the production in Chile was very rudimentary. Base on this new information, many wealthy families were able to set up their own wine businesses (Ross 2006).

By the end of the nineteenth Century, several vineyards had appeared. “By the 1880’s, the top grape and wine producers in Chile were well known families that owned approximately 23 vineyards producing for mainly domestic consumption” (Benavente 1996, 226). At this point

in time, the Chilean wine industry experimented a period of economic expansion. This success resulted from a vine disease called phylloxera, which destroyed Europe's vineyards from 1863-1875. This disease never infected the vines in Chile because they wisely banned all importation of vines from Europe during this time. With that in mind, it has been said the Chile has the oldest vines in the world due to phylloxera killing off the oldest vines in Europe. This early success in the Chilean wine industry did not last as long as expected though. Europe recovered from the devastation of phylloxera. After eventually finding a cure, included grafting vines onto the roots of a phylloxera resistant North American vine species (Ross 2006).

Political instability also inhibited the success of the Chilean wine industry (Benavente 1996). In the aftermath of the Chilean civil war, a period of political and economic strife, lasting from 1891-1920, halted growth in the agricultural sector. These years also saw widespread change as Chilean society grew increasingly urbanized and new middle class emerged. Although resulting in industrial growth and many new white-collar jobs, this new middle class eventually merged with established elite. This merger created a serious impediment to social and economic reform. Since it entailed the continuation of colonial era structures for the wine industry, this meant no growth, but rather a continuation of present conditions including the elite dominated hacienda system (Keen 1996).

The reason this merger between the elite and the new upper middle class blocked social and economic reform is that the new upper middle class was conforming to old elite values and characteristics. Instead of the new upper middle class reforming the old elite, they conformed to the elite style of life. One thing the government decided to do during this time period was to create more money by taxing agricultural production and limit the amount of land used. The taxing of agricultural production and limitation on land use did not foster the growth of

vineyards. Instead, this time period saw wine production as a continuation from the colonial era. Only elite landowners that typically ran latifundias produced wine, while other agricultural producers provided food for the rest of the population (Keen 1996).

In 1920 Arturo Alessandri became president of Chile by promising reform and appealing to the lower and middle classes. Alessandri soon discovered that reform would be very difficult to achieve with the opposition from the military and political fronts, as well as the elite social class within Chile. His formula for recovery was to restore the free market, end state intervention in the economy, and employ foreign loans and investment as the basis for economic development. The basis of foreign loans and investment became an important aspect of the Chilean economy and the wine industry. According to Benavente, “vineyard development was based on four factors: investment in human capital, investment in irrigation, the growth of agricultural loans, and the introduction of French varieties” (Benavente 1996, 226). However, during his time as president, there were several juntas that overthrew Alessandri. These juntas did not give Alessandri much opportunity to focus his formula for recovery. He was however able to return after every one and remained in office until 1964 (Keen 1996).

During this time period, the wine industry basically came to a stand still in production and technology. In 1929, the Great Depression hit the United States and affected all aspects of the global economy including Chile. The crash on Wall Street cut off all-important flows of capital and loans, plunging Chile into an economic crisis. This put Chile in a vulnerable position to a succession of military coups until Alessandri returned in 1932. At that time, Chile was in the process of trying to recover from the depression with the rest of the world. By 1938 there was an alcohol law in place that limited the number of hectares of grape vines that could be planted for wine production. This alcohol law was intended to curb the production of cheap Pais wine sold

by small farmers in the impoverished south. This law turned the focus of wine growing to volume defined by quotas instead of quality. The limit was 60 liters of wine per person per year. “With profits in direct relation to the number of liters produced, cheap production became the goal. A black market flourished that was supplied by wine from vineyards on properties devoted mainly to other uses” (Benavente 1996, 232). The economic depression in Chile caused chaos within the domestic wine market. Local farmers were producing and selling a low quality wine cheaper than the vineyards. This put a hold on any kind of expansion in production through the 1940s. Once the onset of World War II started, the Chilean government put a ban on all foreign imports. This made the advancement of manufacturing technology in the wine industry impossible (Ross 2006).

This ban on foreign imports resulted in mass production primarily for local production since the elites were unable to bring back the information and technology needed for producing higher quality wines for export. This mass production system was used from the 1960s until Chile came out of isolation in 1989. During the 1960s, Eduardo Frei became president and implemented a plan for agrarian reform. These reforms were designed to create a market needed for a modern mass industrial and agricultural sector that could supply the basic needs of the population. Frei fell short on his agrarian reform program. Inflation eroded away wage gains for the rural population and land redistribution programs lacked the structure they needed to be executed. Frei did implement a reform program that began the break up of the latifundias, which were basically feudal estates from the colonial era set up by the conquistadors (Keen 1996).

Salvador Allende began his term as president in 1970 and by 1972; the latifundias system was completely broken up. This accelerated process of land reform also brought other problems in the agricultural sector. Once these latifundias began to break up with the reforms, there was an

accelerated process with sometimes-violent responses, especially within Salvador Allende's reign. "With the breakup of these old feudal estates came a loss of vast areas of vineyards, social upheaval and economic chaos" (Ross 2006, 7). When they were broken up most of the land was redistributed to local farmers creating more subsistence agriculture (Ross 2006).

These problems included inefficiently managed agricultural production because of the new land distribution process. Before the break up of the latifundia system, the estate owners had regulated the agricultural production. Afterwards, there were no organizations capable of regulating production. This time also brought changes in the fields of commerce and industry, and changing land distribution with expropriation of all land holdings over 80 hectares. With these conditions in land reform it was hardly the time for the wine industry to advance in any aspect. This is due to the fact that Chile's inefficiently managed agricultural production, after the break up of the latifundias, was the biggest economic roadblock because it didn't raise enough to feed the country's inhabitants nor did it provide enough employment for the large population of rural labor (Keen 1996).

According to Benavente, "The expropriations carried out under the agrarian reform of the 1960s and into the 1970s, did not affect the vineyards, which were considered agro-industrial companies. Even under the socialist government Salvador Allende, wine growers were considered integrated wine companies, rather than strictly agricultural entities because they had facilities for production, storage, and sales" (Benavente 1996, 227). These aspects of the land reform may not have necessarily hurt or broke up vineyards, but it was not an encouraging atmosphere for growth or technological advancement towards the global market. The wine industry was more focused on domestic production rather than the global market because of the isolation and instability Chile had experienced since the 1920s.

Not only did these land reforms stop the wine industry from advancing but there was also a depletion of stocks and the outflow of foreign exchange. With no foreign exchange coming in, the economy stagnated. This was a huge disadvantage for the Chilean economy. The biggest roadblock was U.S. opposition to President Allende, because the U.S. was one of Chile's biggest foreign investors. With these problems corroding the Chilean economy, there was an economic and political crisis by the end of 1972. By the spring of 1973 there was a military coup and General Augusto Pinochet became president with a set idea to "regenerate Chilean Society" (Keen 1996, 341).

General Pinochet brought in a group of economists called the Chicago Boys, because many of them had studied at the University of Chicago under Milton Friedman, to help implement free market doctrines and to integrate Chile in to the globalizing market. With their experience and study, they wanted to help Pinochet open Chile to Neoliberal reforms. Neo-liberalism gained prominence in the 1970s as a political-economy critique of Keynesian economics. The U.S. and the U.K. first implemented neo-liberalism in the 1980s before it was accepted at a global level during the 1990s. The exact way neo-liberalism is implemented differs from country to country but policies may include,

"privatization, central bank independence, trade liberalization, the flexibility of the labor market, public sector restructuring and the cutting of back trade union rights. Neo-liberalism policies are based on two core assumptions, 1) Inflation is greater threat to economic development than unemployment and 2) that state intervention causes unemployment and inflation in otherwise efficiently functioning, free market economy" (Bieler 2007, 2).

One Neo-liberal policy the Chilean government focused on that helped the wine industry advance was diversifying the export economy. At first, these free market policies fueled an expansion that lasted until 1980. Because the Chicago Boys were interested in keeping interest

rates high to attract foreign investment, an economic crisis began in 1981 that lasted until 1986. Pinochet's growing isolation reflected changes within Chile and the continent wide movement away from authoritarian rule. Pinochet was pressured by this movement and the United States to hold democratic elections in 1989. By 1989, Chile truly began to come out of its isolation from the globalizing economy and finally got a chance to advance a thriving export sector. The wine industry at this point in time was not in the position to jump right in the global economy and start exporting. The years of isolation caused a lack in technology. However, the consumption patterns around the world had increased. At this time, the wine industry began to realize that the real money was in growth and production of premium wines for export because domestic consumption was proving to be too low to be profitable (Keen 1996).

## **Chapter Four**

### **Methodology**

This study examines the recent developments in the Chilean wine industry, especially its emergence as a major world exporter. A better understanding of the success of Chilean winemakers in the global economy may help explain why Chileans generally have more positive attitudes towards globalization and free trade compared to other Latin American countries. This section will discuss the current approach and methods implemented for this research.

#### **Approach**

The current research is in a globalist approach. The globalist approach emphasizes the inevitability of globalization throughout the world. As mentioned before, globalists show that the process of globalization can be seen in technological advancement, increases in trade, increased interdependency and the emergence of global brands. Globalization is not new to the world's wine industry, but its influence over the past decade has increased significantly (Anderson, Norman, and Wittwer 2003). This research will focus on the globalization in the New World wine industry with its focus on Chile. This thesis will examine the connections, changes, and implications for the Chilean Wine Industry in an increasing globalized economy.

The current research on globalization within the Chilean wine industry demonstrates a tendency to focus on export-oriented production. To survive within the global economy, Chilean wine companies must export because domestic demand is often insufficient. Domestically there is no market for premium wines. Another response to globalization within the Chilean wine industry is to transition to premium wines to satisfy increased consumer demands and compete with Old World producers. More vineyards within Chile are upgrading to premium wines (Anderson, Norman, and Wittwer 2003). The shift to premium wines is driven by the desire to



compete in the global market. Other indicators in the expansion of globalization within the wine industry include vine acreage increase, overall production increase, and an increase in exporting.

The research approach implemented in this study is qualitative based field research with an emphasis on interviews. Field research is going where the action is and watching and listening. To implement field research, one must know the literature beforehand to be able to understand and compare what is being observed. In connection with field observations, interviews were conducted. “Qualitative interviews are an interaction between an interviewer and a respondent in which the interviewer has a general plan of inquiry but not a specific set of questions that must be asked with particular words and a particular order” (Babbie 2002, 298).

This research was conducted by interviewing five executives from dominant vineyards in Chile, as well as observing those vineyards. In addition, other globalization indicators such as the increase in total hectares planted, production, and in the export sector from different vineyards as well as the top countries that import Chilean wine and overall wine production will be studied.

## **Method**

A case study of the Chilean wine industry is used for this particular research. “Case studies are the limitation of attention to a particular instance or something” (Babbie 2002, 291). Case studies can be useful in depicting a complete portrayal of a client’s experiences and results regarding a program. They are frequently found to be vague because what constitutes a case study is very broadly defined. This general depiction of what a case study is may be due to the fact that it can be a process of inquiry, and the product of that study (Babbie 2002). The chief purpose of the case study in this research is to depict the presence and the process of globalization in Chile by focusing on the globalization of the wine industry.

The method chosen for the current research is a case study that utilizes observations, interviews, literature, and indicators for growth in the global market analysis in order to set up the research and to complement the qualitative data. To supplement the qualitative case study, a quantitative measurement of the development of globalization factors, including increases in production and exports, will be presented to better understand the impact that exports have on domestic production. The Pearson's correlation coefficient will be calculated using exports as the independent variable and production as the dependent variable. The Pearson's correlation coefficient, is used to "determine the strength and direction of the relationship between" dependent and independent variables (Levin and Fox 2003, 321). On this calculation the dependent variable relies on the changes within the independent variable. It is hypothesized that exports will have a strong positive impact on production because foreign demand will increase exports causing an increase in production. The level of significance calculation will not be used because the data is not from a random sampling, but rather actual figures.

## **Chapter Five**

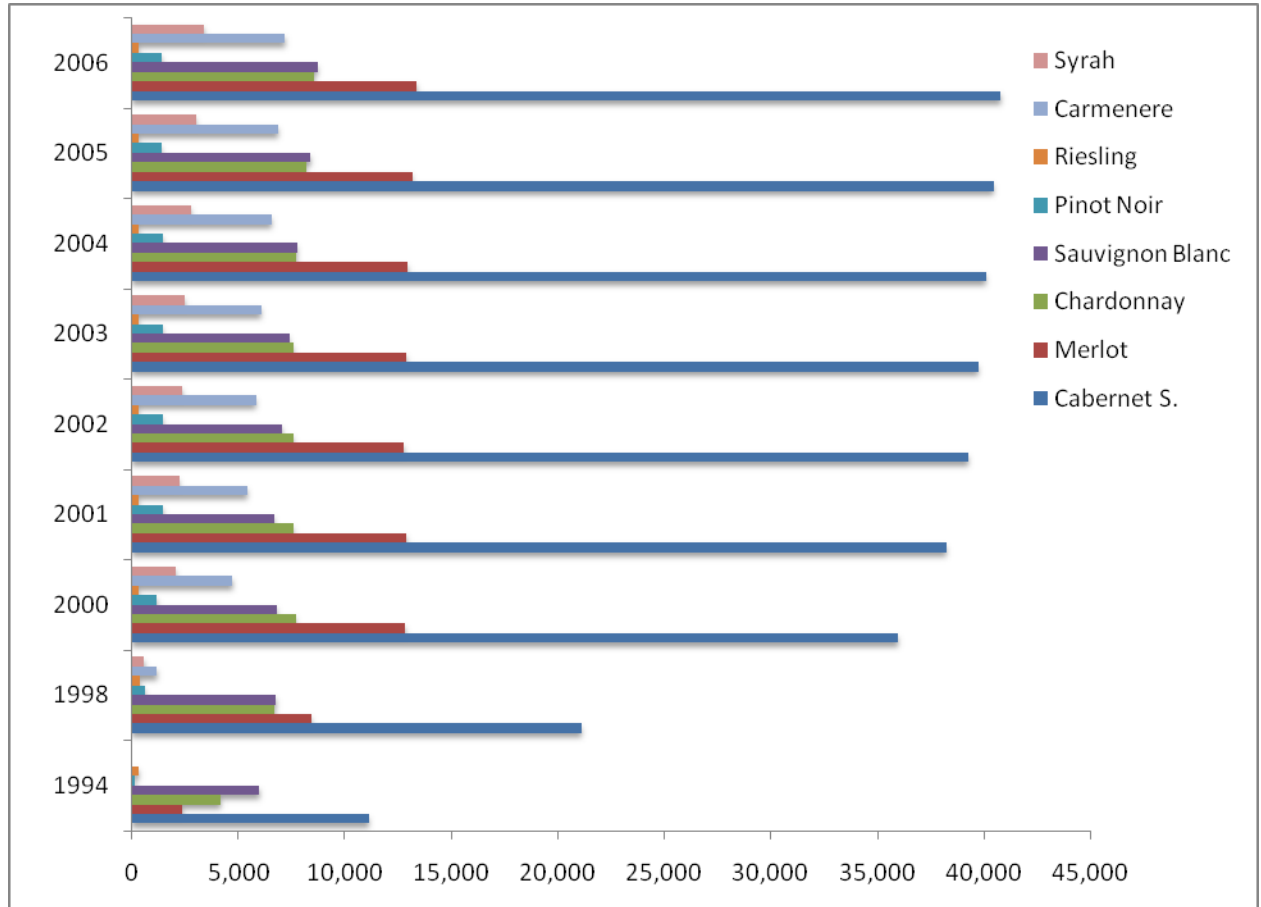
### **Data Analysis and Current View of the Wine Industry**

From 1989 onward, the Chilean wine industry began to grow rapidly, domestically and in the global market. Several factors caused the globalization of the wine industry. These factors include the increase in hectares planted, production, and exportation and are considered affects of globalization on the wine industry (Anderson, Norman, and Wittwer 2003).

#### **Increase in Hectares Planted**

The first factor, the increase in hectares planted for the purpose of wine production started with the diversity of grape variety planted. Figure One shows the variety of grapes planted in hectares from 1994-2006. In 1994 there was not a lot of diversity in variety of grapes. The grape varieties of Syrah and Carmenere had not yet been planted and they had just begun the planting of Pinot Noir. By 1998, those varieties had been planted, and many of the other varieties such as Cabernet Sauvignon, Merlot, and Chardonnay had doubled in hectares. By 2006 all of the grape varieties nearly tripled in hectares. This shows a tremendous growth in the size of existing vineyards as well as the possibility of the creation of new vineyards and the push towards producing premium wines (Catastro Viticola Nacional 2006).

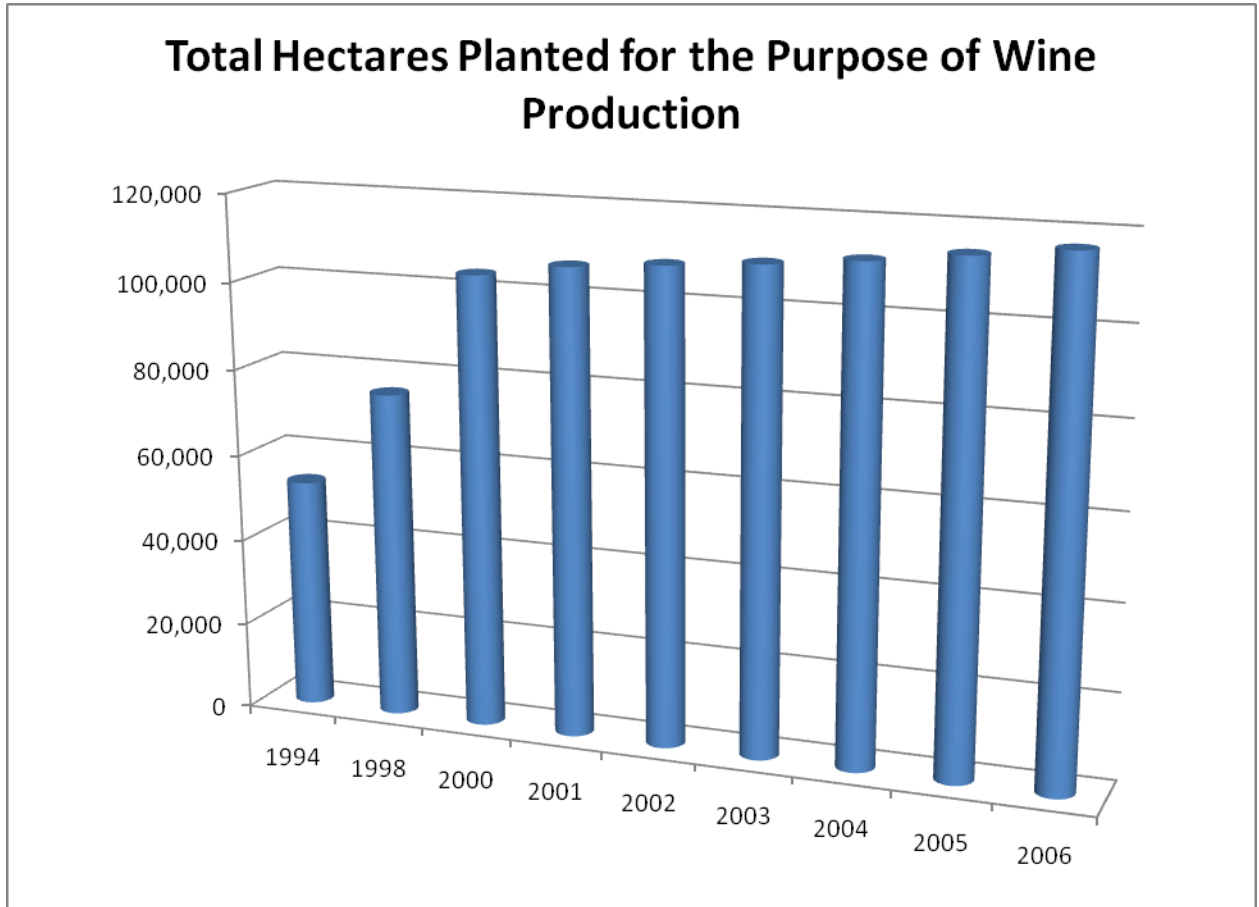
**Figure One**



Source: Chile, Department of Agriculture

Figure Two shows the overall total hectares from 1994-2006. This graph shows that in 1994, there were only a total of 53,093 hectares planted for the purpose of producing wine. In 1998 that total had reached to 75,388 and then to 103,876 in 2000. That is about a 42 percent increase from 1994 to 1998 and about a 38 percent increase from 1998 to 2000. In 2001 the level of hectares levels out with an average change of 1.8 percent per year into 2006. After 2001 the level of hectares planted every year growth remains relatively constant (Catastro Viticola Nacional 2006).

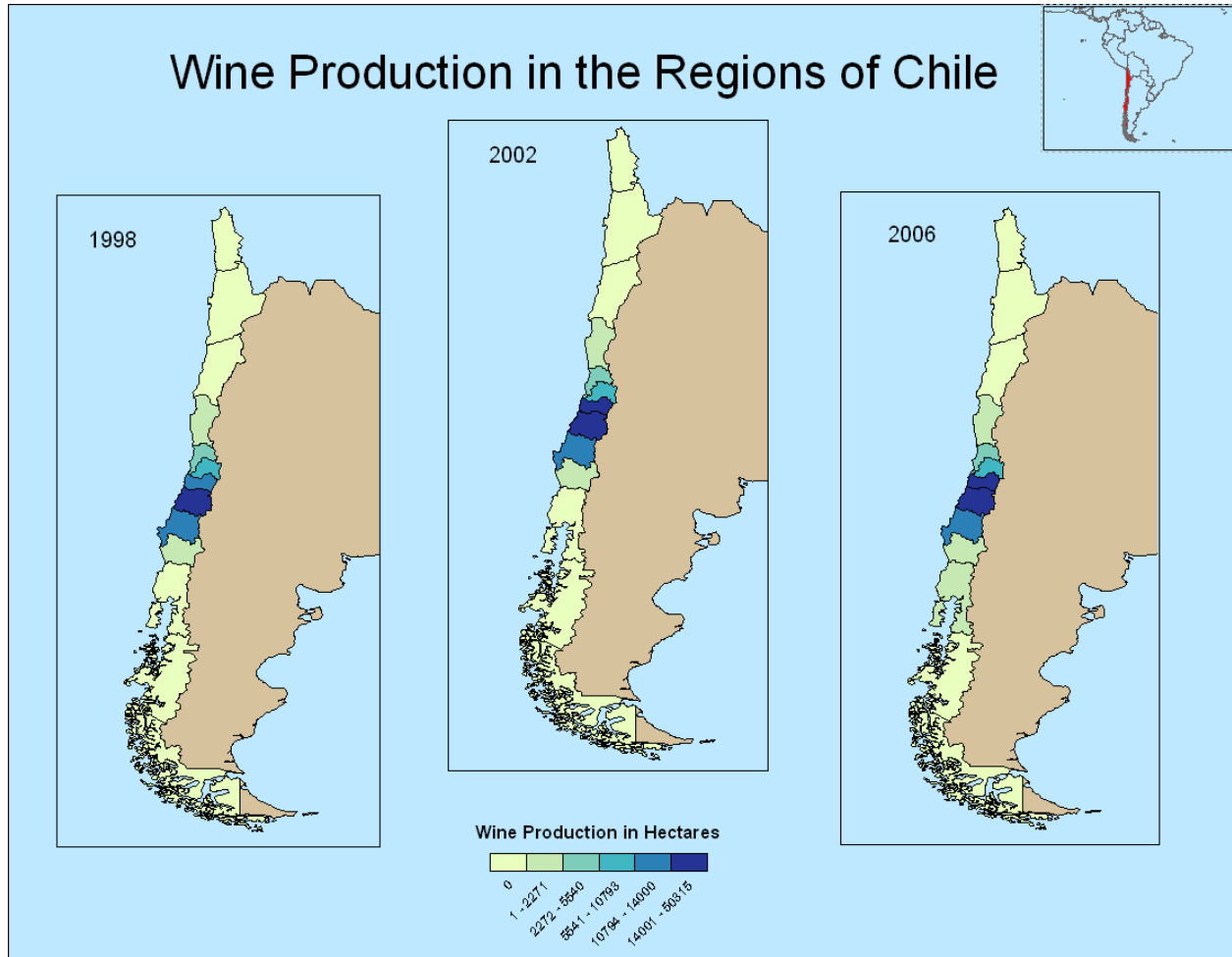
**Figure Two**



Source: Chile, Department of Agriculture

Both Figure One and Two show increased growth from the late 1990s into 2000. According to some research by Benavente, this increase in production was caused by the Chilean wine industry dominating the European market. By 2000 Europe had become the Chilean wine industry's largest market, "buying more than 50 percent of Chilean wine exports" (Benavente 1996, 229). The Chilean wine industry's break through in the European market led to sustained growth in the planting French varieties and increased levels of production.

**Figure Three**



Source: Chile, Department of Agriculture

The map in Figure Three shows production in hectares in 1998, 2002, and 2006 within the regions of Chile. By looking at the map, the most production takes place in the central regions of Chile. Starting in the fifth region down from North to South these central regions are, Valparaíso, Region Metropolitana or Santiago, O'Higgins, Maule, and Bio-Bio. From 1998 these central regions increase production and in 2006 the wine industry gains a producing region, Los Lagos in the south.

These central regions provide the best geography and climate for vine cultivation. The Northernmost producing region IV is home to the Elqui, Limari, and Choapa valleys. "The Elqui

valley is close to the Atacama Desert and extends southward between the Pacific Ocean and the Andes Mountains” (Wines of Chile 2002). This area provides ideal conditions for many types of grapes such as table grapes, and aromatic varieties. However, this region is known for its production of red wines. The Elqui, Limari and Choapa valleys get the “Camanchaca Fog” that creeps up from the river valleys each morning bringing cool air that helps moderate temperatures (Wines of Chile 2002).

Moving south the next region V is Valparaiso. This region has beautiful clear skies, a stable climate and low risk for frost. Red varieties dominated the area in the early 1900s but today this region provides the perfect cool climate for white wine varieties such as, Chardonnay, Sauvignon Blanc, and Pinot Noir. The next region RM (Region Metropolitana de Santiago) is home to the oldest vineyards in Chile, Cousino Macul and Conch y Toro. Most of the vineyards are outside of the booming capital city area of Santiago, except for Cousino Macul that was started in the middle of Santiago after Chile gained their independence. This region is dominated by the production of Cabernet.

The next region VI, O’Higgins, is known for the production of red varieties including: Carmenere, Syrah, and Malbec. This region holds warm agricultural lands in the interior valleys that now have an official wine route. Region VII, Maule is Chile’s largest producer of Sauvignon Blanc. This region has a moderate Mediterranean climate, but because of the location of the wine producing valleys the maritime influence is blocked to produce Cabernet Sauvignon and Sauvignon Blanc.

Region VIII, Bio-Bio has a hard climate to grow grape varieties but vineyards have found a “daredevil winegrowing” against the elements (Wines of Chile 2002). This region has low temperatures, high rainfall, and a high risk of spring and fall frosts that could wipe out an entire

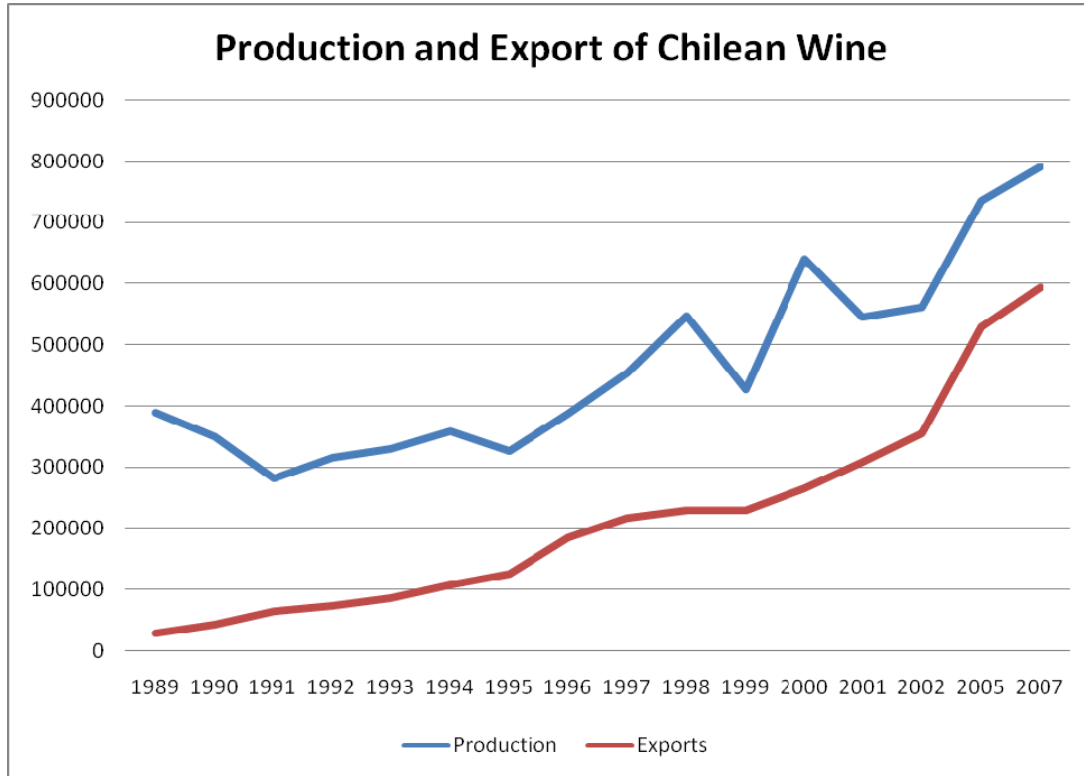
season of cultivation. Despite these risks the region is producing many white varieties such as, Pinot Noir, Chardonnay, Sauvignon Blanc, Riesling, and Gewuztraminer. The next two regions South of Bio-Bio, Araucania, and Los Lagos are in the experimental stages of cultivation and production. Vineyards are continuously looking for different valleys to grow and produce wine.

### **Production and Exports**

However, even though hectares levels off and grows at a relatively constant rate, there continues to be drastic increases in production. One explanation for this may be the increase of European wine makers in Chile who continue to influence and share technology with vineyards (Eguiguren 2008). Figure Four shows the levels of production in liters and the amount exported in liters from 1989-2007. The level of production throughout these years is increasing except in 1991, 1995, and 1999. These years show a decrease compared to the rest of the data. At the same time the level of exportation on this graph shows it is constantly increasing throughout the same time period as production.



**Figure Four**



Source: Vinas de Chile

To better understand the relationship between production and exports, a Pearson's Correlation Coefficient was calculated for this dataset. Production was tested as the dependent variable and exportation as the independent variable. In this test, the level of production is dependent on the level of change within exports. The correlation coefficient produced was .936. This number represents a very strong positive correlation. For this test the closer the correlation coefficient is to one, the more accurately the independent variable can be used to predict the dependent variable.

This correlation coefficient represents a positive relationship between production and exports. This means that if exports increase, the level of production will also increase. This could also mean that if exports decrease, the level of production would also decrease. It is possible for

exports to increase but production to stay constant depending on the domestic demand. Foreign demand could increase and domestic demand could decrease and the current level of production able to satisfy both domestic and foreign demand. Looking at the graph in Figure Four can see an example of this positive relationship. Overall, as the level of exports increase, the level of production increases as well.

The positive relationship between exports and production sets a foundation for the expansion of current vineyards and possibly the creation of new ones. An increase in foreign demand would result in an increase in exports creating this expansion of current vineyards and the creation of new ones. This growth in vineyards would be necessary to meet foreign demand by increasing the level of production. To see the level of exports in existing vineyards this study will focus on the vineyards interviewed and observed. These vineyards include: Vina Concha y Toro, Vina Santa Rita, Vina San Pedro, Vina Montes, Vina Undurraga, Casa Lapostolle, Casa Silva, Casas Del Bosque, Vina Mar, and Vina Indomita. Figures Four and Five show an overall understanding of where these vineyards rank in exports.

Figure Five shows the cases exported and the total dollar value for those cases in 2006 and 2007. The table ranks the vineyards in comparison to all the vineyards that export in Chile. The number one exporting vineyard in Chile is Vina Concha y Toro. In 2006 this vineyard exported 6,501,642 cases with a value of US \$147,320,895 and in 2007 they exported 8,395,010 cases with a value of US \$201,627, 691. The second largest exporting vineyard in Chile is Vina San Pedro with 2,241,605 cases with a value of US \$48,553,678 in 2007. Concha y Toro has a significant lead in exports compared to other vineyards. This could be because Concha y Toro is the oldest and most recognizable vineyard in Chile. However, out of these vineyards six of them are in the top 20 and the other four are within the top 65 out of 279 exporting vineyards in Chile.

**Figure Five**

	Cases	US \$FOB	Cases	US \$FOB
1. Vina Concha y Toro	6501642	147320895	8395010	201627691
2. Vina San Pedro	1826750	35563671	2241605	48553678
4. Vina Santa Rita	930356	33505527	1079929	41919469
5. Vina Montes	322962	17284449	497477	27252836
13. Vina Undurraga	644021	16874051	602052	16653556
20. Casa Lapostolle	142613	8646586	172278	12051360
31. Casa Silva	114811	4281328	154243	5822348
47. Vina Mar	93871	2613024	121127	3402319
61. Vina Indomita	78341	1756614	101097	2161965
65. Vina Casas del Bosque	31385	1151050	53455	1822656
	January-October 2006		January-October 2007	

Source: Wines of Chile- Montes Vineyard, Douglas Murray

The table in Figure Six shows the amount these specific vineyards export to the United States. Concha y Toro leads as number one in exports as well as number one exporting to the United States with 2,075,633 cases with a value of US \$40,507,636 in 2007. In Figure Six, five of the vineyards are in the top 10 exporting vineyards to the U.S. The next three are in the top 100 and Vina Mar is at 154. The last three vineyards in the table, Undurraga, Vina Casas del Bosque and Vina Mar are decreasing in exports to the U.S. between 2006 and 2007. This could be because they are trying to focus on exporting more to different markets. One vineyard, Vina Indomita, does not export to the United States for the time being. This could be because Vina Indomita is a new vineyard with their first harvest occurring in 2002. However, in Figure Six, Vina Indomita is listed as the 61<sup>st</sup> top exporter out of 279 vineyards.

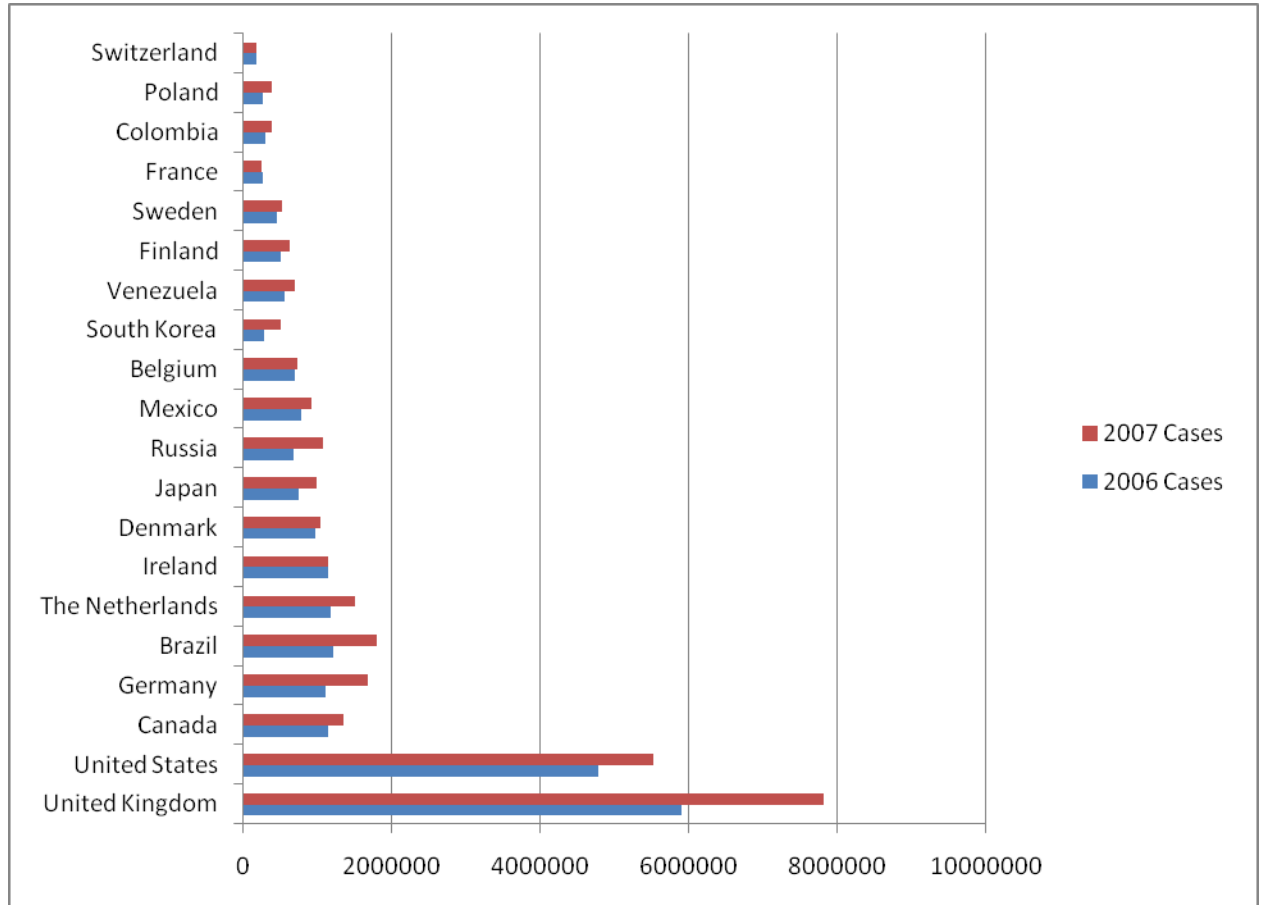
**Figure Six**

	Cases	US\$FOB	Cases	US\$FOB
1.Vina Concha y Toro	2095004	37584911	2075633	40507636
2.Vina Montes	128624	7555445	156399	8570497
3.Vina Santa Rita	182720	5847446	216706	7615580
5.Casa Lapostolle	92455	5379827	108421	7248154
6. Vina San Pedro	235230	4158470	327866	5993273
41. Casa Silva	9370	366594	13390	603912
44. Vina Undurraga	15208	545564	14369	484396
76. Vina Casas del Bosque	5042	192317	3110	127911
154. Vina Mar	2309	58495	14	777

Source: Wines of Chile Montes Vineyard, Douglas Murray

Exports in more detail can be seen in Figure Seven. This chart shows the top twenty destinations for exported Chilean wine. The U.S., as one might think, is not the top importer, but rather the United Kingdom. The United States takes number two, then Canada, Germany, and Brazil to complete the top five. Overall Chilean wine exports increased within the top 20 importing countries from 2006 to 2007. Two countries decrease very slightly between 2006 and 2007, France and Ireland. In Figure Seven France decreased by 11,653 cases or 4.6 percent and Ireland by 10,629 cases or 1 percent. These are very slight decreases compared to the rest of the top 20 that increased between 2006 and 2007, especially the United Kingdom. The United Kingdom increased by 1,911,388 cases or 32.4 percent.

**Figure Seven**



Source: Wines of Chile Montes Vineyard, Douglas Murray

**Figure Seven Table**

	2006 Cases	2007 Cases
United Kingdom	5900984	7812372
United States	4783059	5517063
Canada	1141350	1350260
Germany	1104175	1680491
Brazil	1208267	1798097
The Netherlands	1171219	1492959
Ireland	1144940	1134311

Denmark	963369	1026753
Japan	737784	976312
Russia	670030	1071927
Mexico	782337	907218
Belgium	693143	732415
South Korea	271860	502940
Venezuela	553752	692517
Finland	503685	626862
Sweden	439658	508998
France	253295	241642
Colombia	290773	384348
Poland	267031	373714
Switzerland	165671	177877

The Chilean wine industry, according to these datasets, has increased in total hectares planted for the production of wine, total production, and exports in the last 20 years. It is important to understand how these three factors are connected to the global expansion of the Chilean wine industry before discussing the interviews and observations. These factors will provide a level of understanding to the content discussed during the interviews.

## **Interviews**

There were five interviews conducted with executives Mark Vanston, Vice President of Sales and Marketing for VSP Group at Vina San Pedro; Carolina Gomez, Communications Director at Vina Undurraga; Jose Manuel Garcia-Huidobro S., P.R. Manager at Vina Concha y Toro; Patricio Eguiguren, Managing Director at Casa Lapostolle; Douglas Murray, Director, Founding Partner and Guardian of the Spirit at Vina Montes. One question that was asked in the

interviews to all of them was how long they have worked in the wine industry to establish who had seen the most in terms of time period and change. The response to this question include Mark Vanston 20 years, Carolina Gomez four years, Patricio Eguiguren 15 years, Jose Manuel Garcia-Huidobro five years, and Douglas Murray 20+ years. Only two of the five have worked 5 years or less in the wine industry and most of them have worked at more than one vineyard. That question was to understand the realm of experience each executive had within in the wine industry.

### **The Beginning of Exports**

The first topic of discussion in most of the interviews was when that specific vineyard began exporting. Each vineyard had a different time frame. San Pedro began exporting right after World War II (Vanston 2008). Undurraga began exporting between 1909 and 1910, Casa Lapostolle in 1994, Montes in 1988, and Concha y Toro in 1933. Even though many of these vineyards began exporting before the 1980s and 90s the general consensus in these interviews was that the wine industry was not able to compete in the global market until the mid 1980s into the mid 1990s. It was not until after Pinochet's globalization policies produced an open market economy with neo-liberalist policies did the wine industry began to export (Gomez 2008). General Pinochet brought market policies that created an expansion that lasted until 1980. The policies at the time were keeping interest rates high to attract foreign investment, and an economic crisis began in 1981 that lasted until 1986. "In 1980 there was an economic crisis where the cost of Coca-Cola was more expensive than the cost of wine" (Murray 2008). During this time exports were slow and did not increase until the end of the 1980s. By 1989, Chile truly began to come out of its isolation from the globalizing economy and finally got a chance to advance a thriving export sector (Keen 1996).

Chile implemented more than just globalization as a process. Pinochet implemented neoliberal and open market policies that are still part of Chile's globalization process. As mentioned previously, the anti-globalist approach believes that countries need to keep trade liberalization policies in mind because globalization by itself is not an implementation policy; it is more like a set of guidelines to see what eventually needs to be accomplished, to be integrated into the global economy (Rodrik 2003). Chile took precautions when trying to globalize into the global market by also implementing neoliberal policies. Neo-liberalism gained prominence in the 1970s. The U.S. and the U.K. first implemented neo-liberalism in the 1980s before it was accepted at a global level during the 1990s. Neo-liberalist policies are implemented differently from country to country but policies implemented in Chile included trade liberalization, and central bank independence. These neo-liberal policies helped Chile begin to fully integrate into the global market by becoming an export-oriented economy (Bieler 2007).

### **New Technology**

In the early 1990s, Chile was the top importer of products to increase the level of technology in the production of wine (Murray 2008). Such technology included stainless steel fermentation tanks, French oak barrels, and updated information on producing premium wines from European winemakers. "Along with the advance in technology there was a big revolution in the 1990s with the arrival of foreign investors such as Marnier-Lapostolle, Rothschild, Mondavi, Kendall-Jackson, and Torres" (Equiguren 2008). After this technology became available the vineyards began producing and exporting more wines. Exporting in the global market changed how many of the vineyards produced wine. Vineyards started producing premium wines to be able to compete in the global market (Vanston 2008).



Liberal policies paved way for the development of exports and allowed imports of equipment with the inputs needed for the technical development of the wine industry. This technology gave the vineyards an easier way to produce more wine. This increase in the production of wine led to overproduction in the early 1990s. The overproduction caused vineyards to focus on export markets (Benavente 2006).

This period brought change to the industry in the form of technology used to produce premium wines. The first change towards premium wine was the use of stainless steel for the cleansing and removal of sediment and seeds process instead of wooden vats. The move toward a more premium red wine brought the use of French and American oak barrels for a longer fermenting process. This new process gave red wines more distinctive, older flavors (Benavente 2006).

The only vineyard that still produces some non-premium wine is Concha y Toro. They produce what is called the Tetrapak and “two buck chuck” (Garcia-Huidobro 2008). Tetrapaks are similar to boxed wine, except they are actually more like juice boxes and are usually available in 1-liter containers. Concha y Toro produces these non-premium options for domestic sales purposes; they do not export these non-premium wines because the global market demand is for premium wines (Garcia-Huidobro 2008).

Technology and communication helped to increase the spread of globalization of Chilean wine. As one researcher suggested, technologies make it possible for nations and global companies to sustain deeper levels of economic integration with one another. The deeper levels of integration bring all the effects of globalization (Kearney 2003). Technology and communication make it possible for the global economy to prosper. Examples include the speed and flow of capital in money form to help fuel international trade (Marshall 1995). New

technology and levels of communication could be causing the Chilean wine industry to experience the growth of globalization.

The general consensus is that most of these vineyards do more business within the global market than the domestic market. San Pedro exports to 75 countries with most of their exports going to the United Kingdom (Vanston 2008). Montes exports to 87 countries and their top five importers are: 1) United States, 2) South Korea, 3) United Kingdom, 4) Japan, 5) Germany (Murray 2008). Conch y Toro exports to over 120 countries with their top two importers being the United Kingdom and the United States (Garcia-Huidobro 2008). Casa Lapostolle exports to over 40 countries and their top importer is the United States. The only vineyard that does not do more exporting than domestic sales is Undurraga. Undurraga does half their sales domestically and half by exporting. They still export to 60 countries and their number one export destination is Denmark (Gomez 2008). This reliance on the international market is an effect of globalization called economic interdependence. As discussed before, studies on economic interdependence show that export based companies are reliant on international demand and capital creating a dependency. The Chilean Wine Industry being fueled by exportation and foreign demand creates an economic interdependency (Jones 1999).

To show the growth in foreign demand and exports within the Chilean wine industry, Figure Seven charts the percentage of production exported from 1989-2007. There is tremendous growth in the percentage exported during this time period. The table in Figure Seven shows that in 1989, seven percent of wine production was exported. In 1990 it almost doubled to 12 percent and in 1991 nearly doubled again to 23 percent. By 2001 it was up to 41 percent and by 2007 it increased to 75 percent. “In the Chilean wine industry, as a vineyard you export or you die, because there is not enough demand in the domestic market to produce a profit” (Gomez 2008).

Montes vineyard started with the idea to export all production. They had no intention to sell their products domestically. “Currently, Vina Montes exports 95 percent of their production and sells only five percent domestically” (Murray 2008).

### **Trade Agreements**

With this intense level of trading going on just within these five vineyards, trade agreements could help them tremendously. “Trade agreements make exporting easier on the commercial side because there are no trade barriers” (Vanston 2008). There are also less cost in shipping and no duties to incur (Equiguren 2008). “Within the past decade, Chile has entered into a growing network of trade agreements, with the exact list of countries available on the ProChile website” (Gomez 2008). These include accords with Bolivia (1993), Brunei (2005), Darussalam (2006), Canada (1996), Central America (1999), China (2005), Colombia (1994), Cuba (2006), Ecuador (1995), The European Union (2002), Iceland (2002), India (2006), Liechtenstein (2003), MERCOSUR (1996), Mexico (1998), New Zealand (2005), Norway (2002), Peru (1998), Singapore (2005), South Korea (2003), Switzerland (2003), the United States (2003), and Venezuela (1993) (SICE 2007). In addition, a new Free Trade Agreement with Japan was signed in March 2007 (ProChile 2007). The diverse array of trade agreements gives Chile access to many markets around the world. These trade agreements are an example of economic globalization within Chile. The agreements that Chile has enacted are bi-lateral, multi-lateral and regional. The bi-lateral agreements are seen with individual countries such as New Zealand. A multi-lateral agreement Chile has enacted is with the European Union and the regional union it has become a member of is MERCOSUR. These trade agreements are a form of globalization. As discussed previously, these agreements can lead to interdependency. These agreements cause an interaction and consolidation of all nations involved causing a certain level of dependency (Keohane 2003).

The many trade agreements already in place show that there are no foreseen differences within the Chilean wine industry with the implementation of a Free Trade Agreement throughout the Americas (Gomez 2008). Since Chile already has agreements in place with Central America, Ecuador, Canada, Mexico, European Union, MERCOSUR (members are: Argentina, Brazil, Paraguay, Uruguay, and associate members are: Bolivia, Peru, Chile, Colombia, and Ecuador , Peru, Colombia, Venezuela, and the United States. The Free Trade Agreement throughout the Americas will not change anything. “The FTAA is not really noticeable or talked about within the Chilean wine industry” (Vanston 2008).

### **Domestic Organizations and International Promotion**

These trade agreements give the wine industry access to many markets worldwide. However, the Chilean wine industry needs more promotion and it needs to build a reputation around the world for producing premium wines (Eguiguren 2008). To promote Chile’s reputation and the Chilean wine industry around the world, many vineyards belong to two associations, Vinas de Chile and Wines of Chile. Vinas de Chile is a domestic association that lobbies the Chilean government, for example for funding or subsidies, on behalf on the wine industry (Gomez 2008).

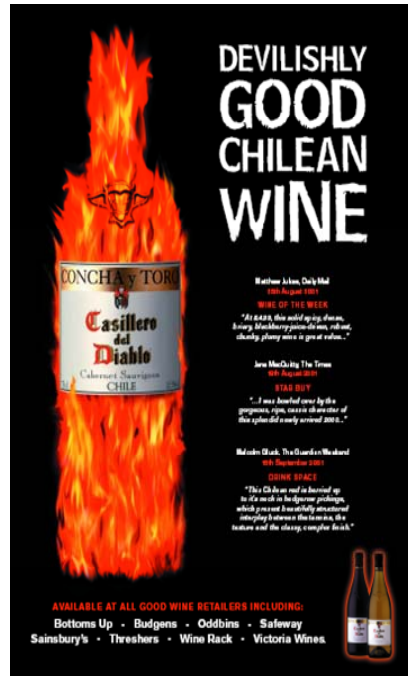
Wines of Chile is a new association that was founded in 2002 (Wines of Chile 2008). Its goals are to promote and develop marketing strategies internationally to help the image of the Chilean wine industry throughout the world. They currently have offices in Santiago, Chile and London, United Kingdom (Garcia-Huidobro 2008). “Wines of Chile pulls resources and money together from over 90 vineyards to promote Chilean wine all over the world” (Vanston 2008). This association is a good tool for all vineyards because not everyone can afford to advertise globally, and being a member of Wines of Chile helps the wine industry as a whole. “Most of the promotion and advertising of the Chilean wine industry is done by Vina Concha y Toro, which is

done by advertising their own products” (Garcia-Huidobro 2008). Consumers become familiar with the common name of Concha y Toro and that helps the reputation of the rest of the wine industry. Typically consumers around the world do not know very much about Chile or Chilean wine. By Concha y Toro advertising their products in the global market, they help other vineyards become recognized (Garcia-Huidobro 2008).

Since Concha y Toro has done a large portion of promotion for the Chilean wine industry by advertising on a large scale they could be considered an emerging global brand. Globalization is causing individual companies to expand and put more emphasis on building a corporate brand or reputation. To accomplish a global brand, companies such as Concha y Toro must build a certain reputation with labels, design, and overall appearance (Schamel 2006). The previous example of the Discovery Channel can be compared to Concha y Toro. Discovery’s target consumers were middle class suburban viewers. Concha y Toro’s target consumers are purchasers of premium quality wine. Concha y Toro has focused on making a certain brand Casillero del Diablo (Cellar of the Devil) a global brand. There is a legend that Don Melcher the owner of Concha y Toro during the late 1800s early 1900s created a story that the devil lived in his cellar so that local villagers would stop stealing the wine he was producing. This legend stuck and now Concha y Toro sells a line of Casillero del Diablo including Cabernet, Carmenere, Chardonnay, Malbec, Merlot, Pinot, Riesling, Sauvignon Blanc, and Shiraz. This global campaign began in 2000 with the advertisements below.

Figure Eight

2000



2006



2008



Pictures Copyright by Concha y Toro  
Source: Garcia- Huidobro 2008

As seen in these advertisements in Figure Eight Concha y Toro has a target consumer and an effective market strategy. The advertisement in 2008 seems to target a sophisticated wealthy segment of the population. The dark colors with the fireplace and wooden architecture suggest that Casillero del Diablo is a very expensive premium wine. However, Casillero del Diablo is a ten-dollar bottle of wine.

“The success of Casillero del Diablo and the strength of its brand are demonstrated in its sales growth of 220 percent between 2001 and 2006 to a global total of 1.7 million cases. This product supported by a global market campaign based on the wine’s legend has captured a million consumers around the world and has enabled the company to penetrate the attractive premium segment of the market” (Garcia-Huidobro 2008).

This successful business strategy positions Casillero del Diablo to be a global brand.

Concha y Toro and Wines of Chile have helped tremendously with advertising and promotion. They have discovered that some of the best promotion is done by word of mouth. Wines of Chile invites journalists, distributors, and other important visitors to come to Chile and experience the wine industry first hand. They plan activities such as inviting these groups during the harvest to experience the process and to learn first hand that Chile is producing some of the best premium wines in the world (Eguiguren 2008). By inviting members of the international media, Wines of Chile is trying to effectively get global media coverage on Chilean wine. Global media coverage could position the Chilean wine industry to create more consumer demand, which could lead to the creation of more global brands. Wines of Chile is using Schmit's global brand strategy to gain effective global coverage. That strategy includes: 1) communication 2) appeal to human aspirations, and 3) use of global media (Schmit 2008). The Concha y Toro advertisements seen earlier are an example of this strategy. The 2008 promotion of an upscale image of Casillero del Diablo, so that middle classes can buy exotic and fancy upper class wine for a low price is an example of appealing to human aspirations.

### **Governmental Influence**

The Chilean government has also set up an organization called ProChile that helps the Chilean wine industry. This institution is an export promotion bureau, not just for the wine industry, but for Chilean exports as a whole. "It is a government funded institution that can be beneficial at times, and there are funds available but not normally distributed out" (Murray 2008). ProChile has helped in opening the Asian market for an increasing amount of exports from Chile. ProChile does occasionally subsidize visits for foreign journalists, distributors and other important trade officials (Gomez 2008). The Chilean government is using ProChile to advertise products all over the world. This organization facilitates globalization within Chile by increasing promotion for trade and helps to gain Foreign Direct Investment (Castells 2003).



“There are no subsidies and no investing from the government. The government looks after the interests of the top exports which are copper and timber and makes sure the countries that import those products are taken care of” (Vanston 2008). The Chilean government also has a huge tax on domestically sold wine which is VAT 19 percent plus 15 percent which comes out to be a 34% tax (Eguiguren 2008). There is no Chilean tax on wine sold abroad and at this time there are no known import taxes or tariffs specifically targeted on Chilean wine. The issue of whether or not the Chilean government helps the wine industry was a divided issue in the interviews. There were quite a few mixed answers as listed above in ProChile helps a lot, sometimes and to no help at all.

This section has reviewed some of the changes attributable to the global success of the Chilean wine industry, including an increase in hectares planted, overall production, and exports. Interviews conducted with executives at five vineyards in Chile discussed when the vineyards truly became export-oriented, the impact of technology, the importance of foreign demand and exports, the role of international trade agreements, the activities of associations such as Wines of Chile, and finally the role of the Chilean government in the wine industry. All of these attributes point to a generally positive attitude toward globalization within the wine industry.

## **Chapter Six**

### **Conclusion**

The global process, marked by increasing economic interdependency and emergence of global brands opened the global wine market to Chilean producers. As a result, Chilean wine makers expanded their areas of cultivation, increased production, and focused production to satisfy the global demand for high quality, low cost wines. An increase in hectares planted, increase in production, and exports are causes of globalization according to current research (Anderson, Norman, and Wittwer 2003). An increase in hectares planted was found to occur in the data researched in the period between 1994 and 2006. In 1994, 53,093 total hectares were produced, and by 2006, roughly 116,730 hectares had been planted. Some of that expansion can be explained by the increase in grape varieties being planted during that time. An increase in production was seen between 1989 and 2007. Along with the increase in hectares planted and production increases, exports also multiplied from 1989 to 2007.

A Pearson correlation coefficient was calculated to determine the impact of increases in exports on production. The coefficient calculated was .936 which shows a very strong positive relationship between exports and production. This positive relationship calculated means that when exports increase so will the levels of production. The positive relationship between exports and production, along with the increase in hectares planted, shows increasing levels across the board. The increase in these areas of the Chilean wine industry indicates that a process of globalization has occurred within the last twenty years.

Along with these indicators, several reasons discussing when and how globalization took place within the wine industry came from interviews conducted in the region. The five executives interviewed are considered experts in the domestic wine industry because of their

experience and first-hand knowledge of the growth, development and promotion of the industry. All of these executives have worked at more than one vineyard within the last twenty years. They have seen the wine industry evolve and have their own personal reasons as to when and how this evolution and globalization happened. These interviews have been analyzed and the general consensus of when the wine industry began to grow and globalize is between the mid 1980s and mid 1990s. This general consensus among these experts sets the timeline for when the wine industry began to globalize.

During this decade, many things occurred in Chile to aid the globalization process and the expansion of the wine industry. Pinochet was president and implemented free market doctrines that created an overall process of globalization. In 1980, there was an economic crisis caused by accelerating interest rates. Chilean banks made enormous profits from these high interest rates on loans in the private sector by borrowing money abroad for 12 percent, and loaning it out for 35 to 40 percent. Chilean companies did not invest in production, as the high interest rates made such ventures unprofitable. This caused many bankruptcies and created an economic crisis for the entire country. Chile began recovering in 1986, and eventually, it turned into an economic boom. During this time, Pinochet pursued a policy of swapping debt for ownership of Chilean industries and natural resources. This created an economy based on exports and foreign investment, rather than a sole reliance on domestic production. When Aylwin became president in 1990, he kept the free market policies from Pinochet, but increased spending for health care, education, and social services, helping to create additional social reforms (Keen 1996).

During the interviews, there were several proposed causes of how the wine industry began to globalize. The first idea was the advancement in technology. During the 1990s after the

economy opened up to the global market, the wine industry began to import new technology to advance the level of winemaking and production. Technology and communication helped to increase the spread of globalization. As one researcher suggested, technologies make it possible for nations and global companies to sustain deeper levels of economic integration with one another. With the deeper levels of integration come all the effects of globalization (Kearney 2003). Technology and communication make it possible for the global economy to prosper. An example of this includes the speed and flow of capital in the form of money to help fuel international trade (Marshall 1995). Advancement of technology put Chilean wine in the global market but that foreign demand focused on premium quality wines. Without advances in technology to create premium wines, the Chilean wine industry would not be able to participate in the global market.

Technology, along with foreign demand, provides a second potential explanation of how the wine industry began to globalize. The growth in foreign demand for wine, especially premium wines, led to a larger consumer market for the Chilean wine industry. “Per capita wine consumption increased sharply in the United States, Canada, and the United Kingdom during the late 1990s and well in to the 21<sup>st</sup> century” (Benavente 1996, 228). In the United States, wine consumption increased from 1.95 gallons in 1998 to 2.39 gallons in 2006 total wine per resident. The total wine consumption in gallons in the United States in 1998 was 526 million and increased to 716 million in 2006 (Benavente 2006). Per capita wine consumption in the United Kingdom has increased from 16.16 in 2001 to 18.97 in 2006, resulting in a 17.42 percent increase between 2001 and 2006 for the U.K. alone.

After the foreign demand for Chilean wine increased, associations were created to help promote the product to different markets. That is the possible effect of globalization on the wine

industry. These associations, such as Wines of Chile, help advertise and promote Chilean wine to different markets to increase interest and reputation. These associations help many vineyards by promoting and advertising Chilean wine in general. Most vineyards cannot afford to advertise on a large scale, so by allowing this pooling of resources, all segments of the industry are able to benefit. Wines of Chile is helping to advertise Chilean wines to gain global media attention, which helps create more global brands. Global media coverage could position the Chilean wine industry to create more consumer demand, which could lead to the creation of additional globally recognized brands. Wines of Chile is using Schmit's global brand strategy to gain effective global coverage. That strategy includes: 1) communication 2) appeal to human aspirations, and 3) use of global media (Schmit 2008).

The third prospective cause of the globalization of the wine industry is foreign direct investment (FDI). Many foreign companies began investing in Chile during Pinochet's policy of swapping debt for ownership of Chilean companies and natural resources. One of the largest foreign investors in Chile is Spain. The key number of investments from Spain lay in the privatization programs that began in Chile in 1990 (Salmon 2001). As one researcher suggested, FDI is one of the main forces behind global capitalism because it provides support to many corporations all over the world to increase technology for trade and global advertisements (Guttal 2007).

This big push toward FDI plays a role in the final likely cause of globalization, which is whether or not the government played a role in the growth of globalization within the Chilean wine industry. While the consensus from the interviews was that the government was not seen as a major player in the development of the wine industry, in each of the interviews, the executives did mention things that the government had done to globalize the Chilean economy overall, and

which the wine industry benefitted from. One of these factors includes the many bi-lateral and multi-lateral trade agreements Chile has signed throughout the world. The diverse array of trade agreements gives Chile access to markets around the world. These trade agreements are an example of economic globalization within Chile. These trade agreements are consistent with the existence of economic interdependency. The agreements and regional unions are important because they strengthen and consolidate economic interaction between Chile and other countries.

The final potential factor the interviewees mentioned was the creation of ProChile. It is a government-funded institution created as an export promotion bureau. This institution is under direct control from the Foreign Ministry's directorate General for International Economic Relations and its job is to promote Chile and Chilean products all over the world. While not directly designed to help the wine industry, these factors did, in the end, affect the wine industry.

The information from the interviews and the datasets demonstrates that Chile has undergone a lengthy process of globalization and that the government has aided that process by free market policies, bi-lateral and multi-lateral trade agreements, and openness to foreign direct investment. The development within the Chilean wine industry has also shown effects of globalization including interdependency from trade agreements and the emergence of a global brand from Concha y Toro.

These indicators demonstrate that the Chilean wine industry does have a positive outlook on globalization. Without the process of globalization, the Chilean wine industry would not be in business because there is not enough demand within the domestic market. The government's establishment of neo-liberal policies and the creation of ProChile demonstrate that the government has a positive outlook on globalization by promoting Chile's exports around the world. Due to the fact that Chile is an export-oriented economy, it is very important that the wine

industry globalize in order to support the domestic economy. Globalization will continue to expand the Chilean wine industry as long as the global market helps support domestic interests.

### **Future Research**

Further research conducted on the impact of globalization on Chile and the wine industry should include Pearson's Correlation Coefficient Tests with exports remaining as the independent variable as hectares planted as the dependent variable. This would help determine if they all in fact have a positive relationship with one another like that between production and exports. The numbers for all the years needed were not available at this time. Other data to look at would be to compare domestic sales to production to see just how much demand there is within Chile. However, at this time, these numbers were also not available. Future research should include more quantitative analysis if figures are made available. Other interviews that should be conducted in further research are with Wines of Chile and ProChile. Contacts with these organizations were made several times, but I could not get an interview with them.

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### PROFILE

Seeking a position in a geospatial information systems (GIS) field. Such a position would require the use of ArcGIS, Idrisi32, and other similar GIS applications. Would also consider positions in the field of geospatial information analysis and positions that require travel in the United States and abroad.

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### EDUCATION

**Master of Arts, Geography** May 2008  
*Graduate Certificate in Geospatial Information Systems*  
Marshall University

**Bachelor of Arts, International Affairs** 2005  
*Marshall University*  
Major: International Affairs. Minors: Spanish and History

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### EXPERIENCE

**Chief Study Abroad Advisor** April 2005 to Present  
*Marshall University, Huntington, WV*

Responsible for managing the study abroad student database for those in the study abroad process.

- Advises students in the study abroad process including: application, VISA, and credit transfer guidelines.
- Communicates with other departments to register study abroad students, transfer credit for students upon return and research for students for extra financial aid.
- Responsible for managing contact between reciprocal exchange programs and Non-Marshall Programs for students applying to, or returning from, study abroad programs.

**Sales Representative and Engraver** 1999 – January 2007

*Things Remembered, Beavercreek, OH and Huntington WV*

Assisted store management with various operations.

- Responsible for opening/closing procedures and preparing for daily operations.
- Assisted customers in purchasing personalized items and responsible for engraving those items.
- Assisted store management on special occasions such as sales promotions, and inventory.

**Director of Community Service and Campus Activities** March 2004 – 2005

*Marshall University, Huntington, WV*

Responsible for planning community service and campus activity events on campus and in the community.

- Assisted other departments in planning events such as Homecoming Parade with Alumni Center.
- Responsible for contacting and planning events with Red Cross, Habitat for Humanity, and State Police.
- Responsible for planning and organizing 35<sup>th</sup> Anniversary Plane Crash Ceremony.

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Secretary of Gamma Tau Upsilon (Geography Honors Fraternity)

Student Justice for Judicial Affairs and Student Government Association

President Marshall University Model UN

Director of Community Service and Campus Activities for SGA

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